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C O N F I D E N T I A L SECTION 01 OF 03 BAKU 001684

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TAGS: PGOV PREL AJ AM RS TU PK UP

SUBJECT: AMBASSADOR'S INTRODUCTORY MEETING WITH MINISTRY OF DEFENSE INDUSTRY

Classified By: Ambassador Anne Derse for reasons 1.4 b and d.

11. (U) This is an action request; see para 14.

12. (C) SUMMARY: During a November 14 introductory meeting with the Ambassador, Minister of Defense Industry Yavar Jamalov provided an overview of the new ministry, created in December 2005. Jamalov, who was appointed in March, said the ministry is tasked with procuring and producing defense-related equipment, providing the Azerbaijani armed forces with defense-related equipment, and developing ties with other governments' defense industry sectors. The ministry's 2007 budget is 100 million USD, in comparison with the overall defense sector's (Ministry of Defense and Ministry of Defense Industry) 2007 budget of one billion USD.

The ministry's priorities for the next year are invigorating Azerbaijan's defense industrial sector, forming a research institution that will guide efforts to overhaul the GOAJ's defense industrial base, and establishing relations with other country's counterpart agencies. Jamalov, who already has cultivated ties with Russia, Turkey, Iran, Ukraine, and Pakistan, said he was open to exploring potential areas of cooperation with the USG. We believe there is an opportunity to balance the ministry's contacts with Russia and Iran by fostering links between the ministry and US defense firms--see action request. End Summary.

Azerbaijan Growing Stronger, Despite State of War

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13. (C) The Ambassador--accompanied by the DATT and poloff (notetaker)--had an introductory meeting on November 14 with Minister of Defense Industry Yavar Jamalov. Jamalov began the meeting by stating that Azerbaijan is "in a state of war," with 20 percent of its territory under occupation. He said that Armenia has refused to adopt a constructive position, despite President Aliyev's attempt to find a negotiated solution.

14. (C) Jamalov commented on Azerbaijan's growing economic and geopolitical strength. Relative to 2005, Azerbaijan's economy has grown by 34 percent. Azerbaijan's economic success has drawn large amounts of foreign investment. Specifically, Azerbaijan has received 20 billion USD in FDI during the past 10 years and 5 billion in 2006. Azerbaijan's participation in regional projects--the BTC oil pipeline, the South Caucasus gas pipeline, and the Baku-Tbilisi-Akhalkalai-Kars railroad--will increase the

volume of FDI. Azerbaijan's state budget grew from 130 million in 2001 to 700 million in 2006. In short, Jamalov observed that Azerbaijan's economic growth is leading to the country's overall strengthening.

Background on the Ministry

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¶ 15. (C) Jamalov said former President Heydar Aliyev had "created a firm foundation" for Azerbaijan's defense industry in the late 1970's by overseeing the construction of several key defense industry complexes. During the Soviet period, 30,000 people were employed in the Azerbaijani defense complex, although only 4,000 are currently employed in this sector. While the defense sector languished in the early post-Soviet years, Heydar Aliyev sought to reestablish the importance of Azerbaijan's defense industries. In 1993, he established an engineering complex, and then, in 2003, he signed a state decree that raised the importance of the defense sector. Following in his father's footsteps, President Ilham Aliyev created the current Ministry of Defense Industry in December 2005.

¶ 16. (C) Jamalov reviewed the ministry's responsibilities. The ministry formulates and implements Azerbaijan's defense industry policy. The ministry has the authority to import and export defense-related equipment, domestically produce such equipment, provide the armed forces and "other units" with defense-related equipment, and develop ties with other governments' defense industry sectors. The ministry includes a research institution, three departments, and six units. (Note: The size and responsibilities of each entity are unclear.) As the lead GOAJ agency for acquiring

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defense-related equipment, it oversees 19 domestic factories. The ministry has positions for 126 employees, but currently only has 41 staff. Jamalov remarked that he is working to find the relevant specialists.

Ministry Priorities

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¶ 17. (C) In response to the Ambassador's question, Jamalov reviewed the ministry's major priorities. First, the ministry seeks to restore and refurbish Azerbaijan's domestic defense industrial sector. This includes invigorating the 19 defense-related factories. Second, the ministry wants to establish its research institution as the brain trust to energize Azerbaijan's domestic defense sector. Jamalov admitted that the research institution was only approved by presidential decree on September 27, and much still needs to be done to get the institution functioning. Third, the ministry seeks to establish relations with other states and learn from their experiences. To this end, Jamalov noted that he has traveled to several countries. He remarked that he is interested in cooperating with the US in the defense industry sector.

¶ 18. (U) (Note: Press reporting suggests that since his appointment in March, Jamalov has focused on cultivating ties with Russia, Turkey, Iran, Ukraine, and Pakistan. He has met with the Defense Ministers from Turkey (September) and Iran (April). Jamalov and the powerful Minister of Emergency Situations Kamaleddin Heydarov co-chair the Russian-Azerbaijani Committee of Military Technical Cooperation. This institution potentially is significant because it may be a key focal point for bilateral military cooperation. Putin and Aliyev signed a memorandum of cooperation in the military industries, as part of Putin's February visit to kick off the "Year of Russia in Azerbaijan." Local press also indicates that Jamalov was negotiating with Kyiv to develop an unspecified defense establishment. Local press from July also reported that a team of Pakistani military experts was going to visit Azerbaijan to discuss cooperation in the defense industrial

spheres.)

19. (C) Jamalov acknowledged that the ministry may not accomplish all of these objectives in the next year, but these goals would remain priorities for the coming years. Considering future priorities, Jamalov remarked that he would like the ministry's research institution to spearhead the research and development of new defense technologies.

10. (C) In response to the Ambassador's question, Jamalov said that the ministry's 2007 budget is 100 million USD, in comparison with the overall defense sector's (Ministry of Defense and Ministry of Defense Industry) 2007 budget of one billion USD. Jamalov noted that these resources primarily will be focused on establishing the ministry and refurbishing domestic defense industry factories.

11. (C) In response to the Ambassador and DATT's question, Jamalov said that the ministry eventually hopes to develop relations with the commercial defense sector. He noted that while this is within the ministry's purview, it is an item for future development.

Relations with MOD Unclear

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12. (C) The relationship between the Ministry of Defense and the new Ministry of Defense Industry remains ambiguous. The only comment Jamalov offered in response to the Ambassador's question was, we "work together to define priorities." (Note: We have little insight into the personal relations between Defense Minister Safar Abiyev and Jamalov. The Ministry of Defense Industry was created by Presidential decree in December 2005, and it reportedly includes several departments that were formerly part of MOD. Post will report any further details via septel.)

Ambassador Affirms US Security Cooperation with GOAJ

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13. (C) The Ambassador thanked Jamalov for providing information on his ministry and highlighted the strong relations between the USG and the GOAJ. US-Azerbaijani relations are based on three areas: energy diversification, building democracy through political and economic reform, and strengthening regional and global stability and security. In the security sphere, the Ambassador thanked Jamalov for strong support in the war on terror, including the GOAJ's military contributions in Iraq, Afghanistan, and Kosovo. The US promotes regional stability and bilateral military cooperation with the GOAJ through a broad range of programs, including NATO IPAP and Caspian maritime security. The Ambassador noted the central importance of Azerbaijan's NATO IPAP and the USG commitment to assisting the GOAJ make progress in its IPAP. The Ambassador also remarked that the embassy would investigate further opportunities for cooperating with the Ministry of Defense Industry. DATT provided background on DoD's presence and programs at Post.

Comment Action Request

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14. (C) Post seeks Washington's guidance on whether and how to engage with the Ministry of Defense Industry, to include fostering links between US commercial defense firms and the ministry. We note that the ministry's 100 million dollar budget and Jamalov's travel to other countries suggests his ministry is in the initial stages of determining which countries will assist the GOAJ rebuild its defense sector. While the USG has obvious restrictions in providing direct military assistance to the GOAJ, it is not in the US interests to have the ministry turn to Russia and Iran as its major suppliers. There is an opportunity for US commercial firms to work with the ministry--particularly in providing

non-lethal military equipment. For example, Jamalov said that he had recently met with representatives from US defense firm Harris.

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